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OFFICE OF FINANCIAL AND INSURANCE REGULATION  
DEPARTMENT OF LABOR & ECONOMIC GROWTH  
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## **Short-term or One-time Limited Duration Health Insurance Policies For Year Ended 2007**

**A Legislative Committee Report issued by  
Commissioner Ken Ross**

**May 2008**

## **Office of Financial and Insurance Regulation**

Historically, government regulated insurance, financial institutions (banking, consumer finance and credit unions), and securities separately, and a Depression-era federal law known as the Glass Steagall Act (adopted in response to the bank failures following the 1929 stock market crash) specifically prohibited a bank from offering securities and insurance products or engaging in commercial banking. The federal Financial Services Modernization Act of 1999, also known as Graham Leach Bliley Act (GLBA) repealed the Glass Steagall Act barriers and allowed financial service holding companies to engage in any activity financial in nature so long as it did not cause a safety or soundness issue to the overall financial system.

With changing complexities in insurance, banking and securities companies, the old-fashioned regulatory model could not keep pace with the marketplace. Michigan became the first state to coordinate the regulation of insurance, financial institutions and securities into one governmental agency consistent with financial services modernization. Effective April 2000, the Office of Financial and Insurance Services (OFIS) was created by executive order to consolidate the Bureaus of Insurance and Financial Institutions, and the Securities Division of the former Corporations, Securities and Land Development Bureau. The creation of OFIS allowed Michigan regulators to become adept at interpreting and regulating complex services entities that did not exist a few years ago.

On February 1, 2008, Governor Granholm signed Executive Order 2008-02, which became effective April 6, 2008. The order changed the official name of OFIS to the Office of Financial and Insurance Regulation (OFIR) to reflect its regulatory and consumer protection focus.

Today, OFIR is responsible for the regulation of Blue Cross Blue Shield, 27 HMOS, 139 banks, 169 domestic insurance companies, 233 credit unions, 1,303 foreign insurance companies, 1,750 investment advisers, 2,100 securities broker-dealers, 7,772 consumer finance lenders, 146,419 insurance agents, and 115,000 securities agents. OFIR licenses or charters these entities, conducts safety, soundness, and compliance examinations, and protects and educates Michigan consumers of financial services. Through adaptability and consumer communication, the Commissioner and staff of the OFIR strive to be the preeminent financial regulators in the United States.

Overseeing OFIR is Commissioner Ken Ross who was appointed by Governor Jennifer M. Granholm effective February 22, 2008.

## Table of Contents

<b>Introduction.....</b>	<b>4</b>
<b>Data Collection .....</b>	<b>5</b>
<b>Data Analysis.....</b>	<b>5</b>
<b>Exhibit A.....</b>	<b>6</b>
<b>Exhibit B.....</b>	<b>7</b>
<b>Conclusions.....</b>	<b>8</b>

## **Introduction**

A provision of the Patient's Bill of Rights Act, 1996 PA 517, requires an annual report to be filed by the Commissioner of the Office of Financial and Insurance Regulation to the Senate and House of Representatives standing committees on insurance issues regarding short-term or one-time limited duration health insurance policies. The annual report requirement of MCL 500.2213b(7) is a compilation of the gross written premium for short-term or one-time limited duration policies or certificates issued in Michigan during the preceding calendar year. This report is issued to fulfill that requirement and it allows the Commissioner and Legislature to monitor the growth of the issuance of these policies.

MCL 500.2213b(8) provides a ceiling of no more than 10% of a health insurer's collective gross written premium to be from writing short-term or one-time limited duration health insurance policies. This would be for all individual expense-incurred hospital, medical, or surgical policies or certificates issued or delivered in Michigan written directly by that insurer or through a corporation that owns or is owned by that insurer.

Short-term or one-time limited duration health insurance policies are issued to a small portion of the health insurance market in Michigan and serve individuals who are without coverage for short durations of time. Candidates to purchase short-term policies may be individuals who are between jobs, students who no longer are covered under their parents' policies, and those who may be waiting to become eligible for benefits under a more comprehensive policy. The short-term policy is nonrenewable and is only effective for 185 days or less in a calendar year. It does not cover preexisting conditions, is available with an immediate effective date, and does not offer underwriting unless optional benefits are offered.

Prior to the enactment of 1996 PA 517, health insurers marketed and sold short-term or one-time limited duration health insurance policies that were not renewable after a specific period of time. With the enactment of 1996 PA 517 these policies could no longer be sold because they could not meet the renewability requirements of MCL 500.2213b(1) and (2). MCL 500.2213b(1), requires health insurers to renew or continue in force a nongroup hospital, medical, surgical and/or income disability insurance policy or certificate at the option of the individual for policies of a short-term or one-time duration. MCL 500.2213b(2), requires health insurers to renew or continue in force a group hospital, medical, surgical and/or income disability insurance policy or certificate at the option of the sponsor of the plan for policies of a short-term or one-time duration.

1998 PA 457 was enacted in December of 1998, to create an exemption for short-term or limited duration health insurance policies. MCL 500.2213b(4) exempts a policy or certificate of no longer than six months, or 185 days, from the renewability requirement of MCL 500.2213b(1) and (2).

Exhibit A identifies each insurer, its policies in force, member months, gross premium written and direct losses paid on short-term or one-time limited duration health insurance policies issued during 2007. It also calculates compliance with MCL 500.2213b(8), which limits an insurer's business on short-term or one-time limited duration policies to no more than 10% of the insurer's collective gross health insurance business.

## **DATA COLLECTION**

Insurers are required to annually and quarterly file financial statements and related data with the Commissioner. In addition, insurers are required to file Form FIS 0322, Michigan Health Insurance Enrollment Premiums and Losses, annually by March 1st. The data analyzed to produce this report was taken from a combination of the forms FIS 0322 and the annual financial statements filed by the insurers.

## **DATA ANALYSIS**

Exhibit A identifies each insurer, its policies in force, member months, gross premium written and direct losses paid on short-term or one-time limited duration health insurance policies issued during 2007. It also calculates compliance with MCL 500.2213b(8), which limits an insurer's business on short-term or one-time limited duration policies to no more than 10% of the insurer's collective gross health insurance business.

Three companies wrote the bulk of the Michigan business in 2007 based on insured member months. A member month is health coverage for one month for one person. For example, if a person purchases a policy in July, the policy would be in force for a total of six member months by the end of the year. The three largest writers in the group market for 2007 were the Times Insurance Company, John Alden Insurance Company, and Golden Rule Insurance Company. These are the same three companies that have been the major writers of this coverage in Michigan since the data has been captured over the last eight years. American Community Mutual is by far the largest writer of this coverage in the individual market, although it has not reported member months, just policies in force.

Fidelity Security Life Insurance Company reported a loss in Michigan in 2007, but had no written premiums in 2007. Upon inquiry it was learned that the insurer issued a policy in another state where the premium is reported while the loss was paid to a student who resides in Michigan.

Exhibit B identifies the number of policies in force in the short-term or one-time limited duration market over the past eight years. The number of policies in force in Michigan peaked in 2004 at 7,138, declined to 3,054 in 2005 and was fairly constant in 2006 and 2007 at 2,460 and 2,456 respectively.

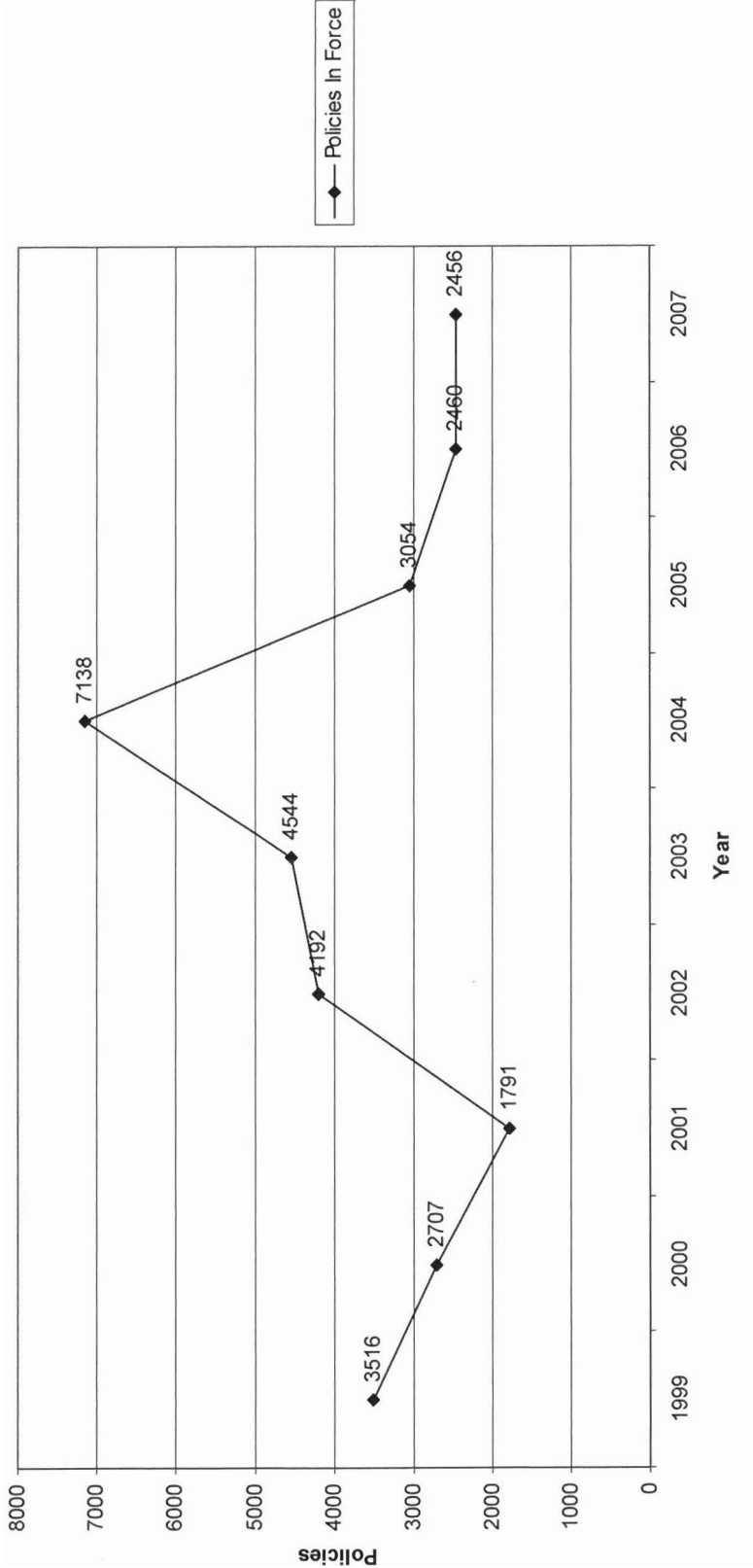
## EXHIBIT A

	Short-Term or 1-Time Duration Health Insurance Policies									
	Policies in Force		Member Months		Gross Premium Written		Direct Losses Paid		% of each Insurer's Michigan Health Market*	
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
<b>Insurer</b>										
<b>Individual Business</b>										
<b>American Comm. Mut. Ins. Co.</b>	931	603	0	0	1,317,008	937,749	618,058	594,416	0.02%	0.02%
<b>Chesapeake Life Insurance Company</b>	0	0	0	0	23	0	52	0	0.05%	N/A
<b>Continental General Ins. Co.</b>	0	0	29	0	1,462	0	4,239	0	Less than .01%	N/A
<b>Fidelity Security Life Insurance Company</b>	0	0	0	0	0	0	4,536	0	Less than .01%	N/A
<b>Standard Life &amp; Accident Ins. Co.</b>	9	1	117	8	2,997	398	0	0	0.07%	Less than .01%
<b>Group Business</b>										
<b>Chesapeake Life Insurance Company</b>	0	0	0	0	24,257	0	23,938	0	0.05%	N/A
<b>Fairmont Premier Insurance Company</b>	32	439	160	2,634	99,607	98,349	23,140	17,258	N/A	100%
<b>Fidelity Security Life Insurance Co.</b>	0	0	0	0	0	0	0	70,985	N/A	N/A
<b>Golden Rule Ins. Co.</b>	1	1	16,304	15,852	908,931	891,553	730,475	500,506	0.03%	0.03%
<b>John Alden Life Insurance Company</b>	254	229	5,582	4,548	450,421	367,787	152,780	123,631	0.01%	0.01%
<b>Time Insurance Company (fmr. Fortis)</b>	1,233	1,183	26,024	21,871	1,927,375	1,646,995	898,543	653,824	0.04%	0.02%

**\*These percentages represent the amount of premium each company has written for the short-term policies divided by the total amount of Michigan health insurance premium written by that company to determine their compliance with the law.**

EXHIBIT B

Policies In Force



## CONCLUSIONS

The Commissioner finds that:

1. The short-term or one-time limited duration market still appears to be a small portion of the overall health care insurance market and continues to be available through only a few insurers. The gross premiums written and percentage of an insurer's total business have not changed significantly over the nine years when this data was first collected.
2. Since 2005, the short-term market appears to be shifting more toward the group market as Time Insurance Company, Golden Rule Insurance Co., and John Alden Life Insurance Company have focused on that market. The group policies are traditionally written through associations whose members may have a need for the short-term coverage. For example, if a person joined a professional association after graduation from college, that association might offer the short-term policy to that member until the member could purchase an employer group policy.
3. Clarendon National Insurance Company created a large spike in the number of policies written in 2004. Clarendon has since withdrawn from this market at the request of the Commissioner since it could not comply with the requirements of MCL 500.2213b(1) and (2).
4. Fairmont Premier Insurance Company reported premium this year with no other health insurance business written in Michigan. Fairmont was notified in writing of its reporting discrepancy with MCL 500.2213b(8), and asked to explain how it is in compliance with the Michigan statute regarding short-term or one-time limited duration health care insurance business in light of the 10% limitation. As of the writing of this report, a response has not yet been received from Fairmont. Follow-up with Fairmont will continue to ensure compliance.



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Ken Ross  
Commissioner  
Financial and Insurance Regulation



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Date